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BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

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Good morning Chairwoman Roukema, Ranking Member Frank, and distinguished Members of the subcommittee. My name is Roy Bernardi. I am the Assistant Secretary for Community Planning and Development in the Department of Housing and Urban Development. On behalf of Secretary Martinez, I want to extend our commitment to work with you to improve the effectiveness of the Empowerment Zone (EZ) and Renewal Community (RC) programs as an effective tool for the revitalization of America's urban and rural communities.

Let me begin by quickly reviewing funding for Round I, Round II, and Round III Empowerment Zones. The Omnibus Budget Reconciliation Act of 1993 authorized HUD to designate six urban EZs by December 1994. Each EZ received $100 million each in mandatory, Social Services Block Grants (SSBG) funds.

The Taxpayer Relief Act of 1997 authorized HUD to designate 15 urban Round II EZs by January, 1999. Only tax benefits were authorized; however, the 1999 and 2000 budgets proposed 10 years of mandatory grants totaling $1.5 billion. Instead, Congress appropriated discretionary funding for Round II EZs from 1999 through 2002 totaling $330 million or $22 million for each zone.

Most recently, HUD designated eight Round III urban EZs and 28 urban and 12 rural Renewal Communities (RCs) on December 31, 2001, authorized by the Community Renewal Tax Relief Act of 2000.

The Community Renewal Tax Relief Act of 2000 provides a valuable array of tax incentives, which brings the total to more than $22 billion and applies to all EZs and RCs until December 31, 2009. The Administration did not request grants for the Round III Empowerment Zones because we believe tax incentives are the driving force behind economic revitalization and job creation in Empowerment Zones. The Round III EZ and RC competition reflected this emphasis and generated a great deal of enthusiasm. As suggested in the President's Fiscal Year 2003 budget, the Administration believes that economic revitalization can be better served by utilizing the $22 billion in tax incentives or on the average approximately $300 million per Empowerment Zone and Renewal Community.

To improve the effectiveness of Empowerment Zones, HUD plans on focusing on two main areas. First, we are implementing an aggressive and comprehensive plan to market the existing tax incentives to businesses and individuals in the 30 Empowerment Zones and 40 Renewal Communities that HUD has designated. The perceived complexity of tax incentives creates numerous challenges for local governments. Second, Secretary Martinez has made it a priority to improve HUD's monitoring system to better track the performance and financial compliance of grantees. Special attention is being paid to obligations and the timely expenditure of funds. Collectively, Round II EZs have drawn down only $66 million ($66,448,543.83 as of April 9, 2002) or 20 percent of the $330 million ($329,593.00) million awarded, which suggests that communities can move forward with their plans without additional Federal resources.

The committee has expressed a concern about the use of existing Appropriations. Traditionally, HUD tracks progress towards milestones and outputs through an annual reporting process, and the Department shares the Committee's concern about performance.

HUD's Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program (November 2001) looks at a sample of Round I EZ/ECs to attempt to determine the impact of the program. The research found a modest, but significant impact in the economic well being of the Round I EZ/ECs, particularly as concerns unemployment. Because the impact is modest and there are competing inputs of the program; for example, strategic planning, grants and several tax incentives, there is no convincing evidence that the grant program in and of itself increased the program's effectiveness. The report concludes that businesses have insufficient knowledge of the incentives, and I will come back to this issue in my closing comments.

Our goal at HUD is for Empowerment Zones and Renewal Communities to make a dynamic shift to self-sufficiency and sustainable development. For example, rather than planning around another custom made temporary grant program, our most recently designated Round III Empowerment Zones brought over 100 commitment letters from the private sector, non-profits and other public entities.

The Committee asked HUD to explain the merits of tax incentives versus grants. The Round I EZ/EC Initiative was based on an approach that included both grants and tax incentives. The Department believes tax incentives should be the center of its job creation efforts by helping small businesses grow, creating an entrepreneurial environment, and showing to large corporations that these economically challenged areas represent opportunities with great hope. The variety of tax incentives such as employee wage credits, reduced capital gains, increased deduction of property expenses, zero percent interest in bonds for schools and economic development projects - provide an opportunity for success among a much larger pool of individuals. In light of the potential benefits exclusively earmarked to EZs and RCs, the Department believes that if utilized, tax incentives can be a far more effective tool for revitalizing distressed areas than grants, and truly make these areas the place where individuals with vision decide to locate their businesses.

The Department has invited all EZs and RCs to an implementation conference in Washington, DC from May 20 - 22 to learn about the valuable tax incentives they control as well as determine ways that they can market them. The success of EZs will stem from grass roots implementation in communities. If EZs are implemented properly, the results can be more immediate, with more dollars and greater opportunity remaining in these distressed communities. The Department's most recent information shows that businesses in EZs have made only a modest use of the Federal tax incentives. Our concern is that a large infusion of federal grants to Round II EZs may continue to create situations where the large majority of the EZs fail to take full advantage of the tax incentives. Even with our Department's aggressive efforts to train and guide EZs and RCs they must decide if they will take advantage of the $22 billion tax incentive package. We will provide conference calls with the communities, regional update seminars, weekly faxes, and HUD headquarters and field staff working with EZs and RCs.

We fully believe that these tax incentives, for the communities and individuals who embrace their power, will help small businesses grow, attract new businesses and provide job opportunities. These very important parcels of land truly can provide wonderful economic opportunities for all Americans today.